

Escalating Health Care Costs, Rising Premiums Depress HMO Enrollment

More than 2 million of the state's 4.8 million insured residents in 2000 were enrolled in HMOs, making HMO market share 41.6 percent, compared to 42.4 percent in 1999. The 1 percent decline was the second in as many years that HMO enrollment has fallen. Nationwide, the proportion of the population in HMOs (HMO penetration rate) went from 29.8 percent in 1999 to 28.7 percent in 2000; over that same period the HMO penetration rate in Maryland fell from 38.6 percent to 38.0 percent.

In Maryland and nationwide, rapidly increasing health insurance premiums have contributed to employers shifting from fully insured plans to self-funded types of coverage arrangements.¹ This has affected enrollment growth differently in the HMO and non-HMO segments of the private market, since a higher proportion of HMO business is for fully insured products compared to non-HMO insurers.² The HMO market share for the privately insured declined 2.0 percent between 1999 and 2000.

Escalating costs are also cited by commercial HMOs as the reason for withdrawing from participation in the Medicare+Choice program. The decrease in participating plans has led to a reduction in the number of Medicare beneficiaries enrolled in Medicare+Choice HMO plans nationwide. Maryland beneficiaries have experienced an especially large reduction in available plans. Consequently, the share of state Medicare beneficiaries enrolled in Medicare+Choice fell from more than 13 percent in 1999 to under 11 percent in 2000.

Unlike commercial HMOs, Medicaid-only HMOs, otherwise known as Managed Care Organizations (MCOs), experienced an increase in enrollment, so that in 2000 nearly 80 percent of fully insured Medicaid enrollees were members of HealthChoice MCOs.

Purchasers Search for Savings and Consumers' Pursuit of Choice Reduce Private Sector Enrollment

Of an estimated 3.7 million privately insured Maryland residents, 42.1 percent were reported as enrollees in HMOs in 2000, down from the 43.4 percent HMO market share in 1999. The 2.0 percent decline in HMO enrollments from 1999 to 2000 resulted at least in part from employers changing the health care plans they offer to their employees to save money. The Commission's Medical Care Data Base (MCDB) data shows a shift from fully insured products to self-funded types of arrangements for both non-HMO and HMO plans from 1999 to 2000.

Consumers' desire for fewer restrictions on use of care and preference for greater choice of practitioners is a contributing reason for the decline in HMO market share in 2000. Rising health care spending has eroded the gap in premiums between HMO and non-HMO plans, so the incremental cost of increased choice to the beneficiary is now relatively small. The desire for more choice likely accounts for the decline in HMO market share observed within Maryland's small group market in 2000. The data indicate that very small employer groups (who cannot self-insure) are purchasing the PPO plan in increasing numbers. As HMOs experienced an 11.4 percent decline in the number of employer groups, coupled with a 6.3 percent decrease in covered lives, in contrast participation in the small group PPO delivery system increased, with a 34.7 percent and 8.9 percent growth in employer groups and covered lives, respectively.

HMO Market Share and Change in HMO Enrollment in Maryland, 1999-2000³

	HMO Market Share		Change in Enrollment
	1999	2000	
All Insured	42.4 %	41.6 %	-0.6 %
Privately Insured	43.4	42.1	-2.0
Medicare	13.3	10.5	-19.5
Medicaid	75.7	79.3	10.0

Payer Retreat Leads to Enrollment Decline in Medicare

As health care costs have increased, so have the elderly's interest in enrolling in Medicare HMOs. Compared to traditional Medicare, Medicare+Choice HMOs enable enrollees to contain their out-of-pocket spending and, in many plans, to obtain prescription drug coverage. However, as demand has increased, the supply of Medicare+Choice plans has fallen due to HMOs' dissatisfaction with their reimbursement rates. Only two health plans, Kaiser Permanente and Elder Health, offered Medicare+Choice products in Maryland at the start of 2001. These plans serve the metropolitan areas surrounding Washington DC and Baltimore, leaving residents of 16 Maryland counties without access to Medicare+Choice plans.⁴ And those wishing to obtain prescription drug coverage now must pay a monthly premium ranging from \$79-99.

The share of Maryland Medicare beneficiaries enrolled in HMOs declined nearly 21 percent between 1999 and 2000 to just 10.5 percent. Nationwide, Medicare+Choice enrollment also declined, but the change was smaller: HMO market share fell from 17.9 percent in 1999 to 17.0 percent in 2000.

▼ **Bucking the Tide: Medicaid Enrollment in HealthChoice Continues to Climb**

In contrast to declines in HMO enrollment among the privately insured and Medicare beneficiaries, Medicaid enrollment in MCOs increased 10.0 percent, resulting in a 4.7 percent increase in market share to 79.3 percent. Continuing enrollment of children and young women through the Children's Health Insurance Program (CHIP) fueled the increase in HealthChoice enrollees.

Over the past several years, several major commercial HMOs have exited the program. The two commercial HMOs currently participating in HealthChoice (there are 8 MCOs altogether) principally serve Medicaid beneficiaries, not the privately insured: Americaid, a Medicaid-only HMO; and United Health Care, which reports that the majority of its enrollees in Maryland (65%) are Medicaid beneficiaries. Maintaining commercial payer participation continues to be a challenge.

▼ **Regional HMO Markets: HMO Enrollment Increases in National Capital Area and Western Maryland**

Of the state's five regions, the National Capital Area (NCA) and Western Maryland were the only areas to experience

increases in HMO enrollment among insured residents. HMO market share in the NCA grew from 45.1 percent in 1999 to 45.7 percent in 2000, and from 36.9 percent to 38.4 percent in Western Maryland. Western Maryland, NCA, and the Eastern Shore were characterized by a similar pattern in HMO market share. In these regions, the share of the private market surpassed the share of the public market. HMO market share among the privately insured ranged from 25.1 percent in Southern Maryland to 47.4 percent in the NCA. HMOs claimed 39.9 percent of the state's publicly insured market in 2000, ranging from 30.1 percent in Western Maryland to 43.7 percent in the Baltimore Metro area.

Between 1999 and 2000, the NCA was the only region to experience overall growth in both the privately and publicly insured markets. Southern Maryland and the Eastern Shore experienced declines in market share in both markets. While the state as a whole experienced a small decline of slightly less than 3 percent in HMO market share among the privately insured, Western Maryland grew by 6.1 percent and NCA by 1.1 percent, representing the only regions to post increases in private HMO market share. Among the publicly insured, HMO market share grew by 1.3 percent for the state and for two regions: the NCA by nearly 5 percent and the Baltimore Metro area by almost 3 percent. While Medicaid HMOs experienced an increase in market share in all regions of the state, conversely, Medicare HMOs' market share declined in all regions of the state.

Regional HMO Market Share (in Percentages), 2000 [Change from 1999 to 2000]

	NCA	Baltimore Metro	Eastern Shore	Southern MD	Western MD
All Insured	45.7 [1.5]	41.3 [-1.8]	40.2 [-13.6]	27.3 [-19.3]	38.4 [4.1]
Privately Insured	47.4 [1.1]	40.3 [-3.4]	43.9 [-13.8]	25.1 [-24.0]	41.2 [6.1]
Medicare	10.6 [-8.1]	14.6 [-11.3]	0.3 [-97.0]	4.0 [-49.8]	1.1 [-76.3]
Medicaid	78.1 [5.1]	79.9 [5.1]	79.0 [4.2]	80.5 [3.6]	78.5 [2.7]

¹ Large employers have responded to the premium increases by encouraging their employees to move from fully insured HMO plans to PPO plans that are self-insured by the company. This decision limits employers' costs and reduces the amount of money that the companies pay to insurers for administration.

² The role of non-HMO and HMO plans in health care plans that are self-insured by companies is to supply access to a provider network and to pay claims according to the benefit structure designed and implemented by the employer.

³ MHCC calculations using: 1) Current Population Survey data for number with private insurance; 2) The InterStudy Competitive Edge 9.1 HMO Industry Report for national enrollment data and their County Surveyor data for Maryland private sector enrollment; 3) CMS, Medicare Market Penetration - Quarterly State/County/Plan Data Files for Maryland Medicare HMO and total enrollment; and 4) Maryland Medicaid eligibility data for MCO and total enrollment. Medicaid numbers refer to only those with full Medicaid coverage; those in special limited coverage programs are not eligible for enrollment in HealthChoice. Regional estimates incorporate information from the Behavioral Risk Factor Surveillance Survey in Maryland to estimate the number with insurance. The estimates of HMO enrollment and market penetration rates for 1999 presented last year were revised due to: a) a reduction in the enrollment reported to InterStudy by one plan; b) an upward adjustment in the state's 1999 population; and c) a change in the method for determining the number of residents with private insurance.

⁴ Kaiser Permanente and Elder Health sold Medicare+Choice plans in Anne Arundel, Baltimore, Charles, Harford, Howard, Montgomery, and Prince George's counties and Baltimore City.